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C O N F I D E N T I A L SECTION 01 OF 03 TAIPEI 002431

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SUBJECT: U.S.-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION
TAIWAN VISIT: POLITICS

Classified By: Director Stephen M. Young, Reason(s): 1.4 (B/D).

¶11. (C) Summary: Foreign Minister James Huang told the USCC delegation that the recent PRC-Taiwan joint announcement of cross-Straight charter flights was "the most significant breakthrough in cross-Straight relations of the past six years," and that prospects for further progress are good. Huang said Taiwan hoped to start "formal FTA talks" before fast-track authority expires in 2007, but he acknowledged that an FTA is not possible before then. Deputy Minister of Defense Henry Ke argued that the KMT has blocked arms procurement because they wish to make the DPP government appear ineffectual. KMT Vice-Chair Chiang Ping-kun and LY Defense Committee Chair Su Chi said the KMT supports purchasing the P-3C anti-sub aircraft, remains undecided on submarines, and is opposed to buying PAC-III until the alleged referendum-imposed ban expires in March 2007. End Summary.

¶12. (U) From June 27-29, USCC Commissioners Patrick Mulloy and Kerri Houston and Executive Director Scott Bunton met with Chen administration officials, ruling and opposition party leaders, prominent Taiwanese and American business people, and political and economic specialists from Taiwan's academic community. AIT officers accompanied the delegation to all of their meetings. This cable covers political highlights and economic issues are addressed septel.

Foreign Minister James Huang

¶13. (C) Foreign Minister James Huang told the USCC delegation that he believes relations with the United States are moving in a positive direction, as indicated by the recent visits of Deputy U.S. Trade Representative Bhatia and AIT Chairman Burghardt. In particular, Huang expressed Taiwan's appreciation for Washington's positive response following President Chen's reiteration of the "four nos." Taiwan would like to further strengthen ties with the United States through the eventual establishment of a FTA, at least in substance if not in name. He commented that Taiwan must continue to be able to compete effectively economically in the Asia-Pacific region, because "if the balance is tipped on the economic side, eventually the political balance in the region will be altered, threatening Taiwan's survival." Huang acknowledged that completion of an FTA would not be

possible before fast-track authority expired next year, but expressed hope that "formal FTA talks" could begin before then. When asked about whether Taiwan is prepared to agree to services and agriculture concessions in order to obtain an FTA, he responded that "Taiwan understands the requirements."

¶4. (C) Huang said he was optimistic about cross-Straight relations. Contrary to some expectations, President Chen had not resorted to provocative statements or actions to shore up his popularity during the recall crisis, and in fact had renewed his call for cross-Straight reconciliation.

Cross-Straight relations had not deteriorated during President Chen's tenure, he argued, adding that the June 14 Taiwan-PRC announcement of cross-Straight charter flights was "the most significant breakthrough in cross-Straight relations of the past six years." Huang contended Beijing's willingness to go forward with the charter flights agreement indicated an increasing understanding that former KMT Chairman Lien Chan and PFP Chairman James Soong do not represent mainstream opinion in Taiwan, and that greater cross-Straight progress could be realized by working with Taiwan's elected government instead of just the opposition.

KMT Vice-Chair Chiang Pin-kung and LY Defense Committee Chair Su Chi

¶5. (SBU) KMT Vice Chairman and legislator Chiang Ping-kun said the KMT favors maintaining the status quo because the majority of the people of Taiwan do. The KMT also favors reducing restrictions on Taiwan investment in the PRC, which would benefit both sides. The way to keep businesses in Taiwan, Chiang argued, is to improve the Taiwan investment climate and facilitate direct cross-Straight travel links, not

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to impose investment and travel restrictions.

¶6. (C) Chiang said the KMT is committed to increasing Taiwan's defense capability but believes that arms procurement should be part of the regular annual budget rather than a special budget. KMT legislator and LY Defense Committee Chair Su Chi repeated his contention that Taiwan is legally barred from purchasing the PAC-3 missiles until the ban allegedly imposed by the failed referendum expires in March 2008. The KMT remains undecided about purchasing submarines because of concerns over their expense and the lengthy delay before their deployment. Su said the KMT is very interested in acquiring the P-3C ASW aircraft because they are affordable and would quickly fill gaps in Taiwan's defense capabilities. If the P-3C purchase request is submitted separately to the LY when it convenes in September, Su said he is confident that it would be passed quickly. Su also emphasized that the KMT generally believes Taiwan's military ought to be focused on "defensive defense," not weapons systems and plans designed to attack China or its forces, which would give China a possible excuse to attack Taiwan.

Deputy Minister of Defense Henry Ke

¶7. (C) Deputy Defense Minister Henry Ke blamed the KMT-led opposition for stalling arms procurement, and said the Chen administration was considering including the entire arms package in its next annual budget proposal, in order to force the opposition into an up-or-down vote. Ke added that the government planned to raise defense spending to 3 percent of GDP to allow for the modernization of the Taiwan military, particularly C4ISR and battle management integration, facilities hardening, next-generation fighter aircraft, improved ASW capability, and improved military education.

¶8. (C) According to Ke, Taiwan recognizes that China is using economic ties, diplomatic pressure and military strategy to pursue its Taiwan and Asia policy agendas. Ke urged the

U.S., Japan, and Taiwan to think clearly about how to respond to China's plan. He dismissed the idea that China could bring about unification through economic means alone, but said President Chen's "effective management" policy was necessary to keep the pace of cross-Straight economic integration within manageable bounds. Ke said that U.S.-Taiwan cooperation would improve if American flag officers were allowed to visit Taiwan, and senior Taiwan officers were afforded increased participation in U.S. exercises. Ke also suggested establishing a direct means of communication between U.S. and Taiwan political and military leaders to coordinate crisis response. Citing recent PLA purchases from Israel and Russia, Ke also expressed hope that the U.S. would be willing to sell more advanced weapons to Taiwan. The United States, he suggested, should be more concerned that the military balance continues to shift in China's favor than that increased military capability might "lead Taiwan to become an agitator." Ke complained that China is working to increasingly isolate Taiwan internationally, and said that Taiwan needs U.S. support to participate in all appropriate international organizations.

Cross-Straight Think Tank

¶9. (SBU) Dr. Lin Chong-pin from the blue-leaning Foundation on International and Cross-Straits Relations (FICS) told the USCC delegation that he believed the greatest crisis facing Taiwan is not a PRC attack, but the corrosion of Taiwan's economy. Lin argued that China is using a charm offensive to improve its image abroad and to squeeze Taiwan out of the international arena. The PRC is also siphoning off Taiwan's economic growth and will continue to do so until Taiwan's government replaces its paralysis with a coherent, responsive Mainland policy. Lin suggested that Washington apply a "double-pronged" strategy to help Taiwan counter China's regional agenda: continuing to encourage Beijing to engage in dialogue with Taiwan's elected officials, while strengthening U.S. military and political ties with Japan, Vietnam, and others to increase the number of air bases encircling the PRC.

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This cable was reviewed and cleared by the USCC delegation.
YOUNG